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Caprio, Carcieri at odds on bonds

The governor says the state isn't depending on Rhode Islanders to bail it out by purchasing state-issued bonds.

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PROVIDENCE — It was a day dominated by news of the state's weakening economy.

During a media briefing in the State House yesterday morning, General Treasurer Frank T. Caprio called on Rhode Island citizens and small businesses to buy millions of dollars in state-issued bonds, a move he said would generate \$350 million in the coming days to help the State of Rhode Island pay its bills on time.

Caprio's office, which likened the effort to the federal government's use of war bonds during



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Governor Carcieri held a noon news conference on the state's economic problems.

the two world wars, has arranged for a special one-day sale of bonds known as tax anticipation notes Monday at several Bank of America branches across the state.

As the treasurer met with the media downstairs, Governor Carcieri met behind closed doors in his second-floor office with small business leaders and accountants to discuss the credit crunch squeezing the Ocean State business community.

The governor emerged from the meeting offering few details as to his plans going forward, but gave a blunt assessment of Rhode Island's financial health.

"If this economy goes into a deep recession ... we're just seeing the beginning of what could happen," Carcieri said.

When asked about Monday's

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planned sale of tax anticipation notes, the Republican governor disagreed with the Democrat Caprio's suggestion that Rhode Island's citizens will play a major role in the bond sale.

Even with major instability in global markets, Carcieri said that large financial institutions that traditionally purchase such bonds will step in, giving the state the cash it needs to pay its bills during this weak economic period.

"We're not depending upon the citizens of Rhode Island to bail out the state," Carcieri said. "The issue of offering those to Rhode Islanders was, I think ... only to offer an option. If we got \$2 million [from average Rhode Islanders], that would be a lot."

But Caprio maintained that Rhode Islanders would play a key role, and continued to urge residents and small businesses to consider buying the state-issued bonds, which will offer investors "a suitable investment" with an estimated 3 percent tax-free yield over the next eight months.

Tax anticipation notes worth \$105 million have been set aside through Bank of America for average citizens and small businesses, known as "retail investors," according to the treasurer's

office. Buyers don't have to be Bank of America customers.

"I think the governor will be (pleasantly) surprised with the amount of retail that occurs on Monday," Caprio said.

Further, the treasurer cited a recent move by California to generate \$5 billion by selling bonds earlier in the month; 75 percent of the sales went to retail investors, according to Caprio.

"Because the banks, insurance companies and mutual funds were not lining up to buy their bonds as they normally do, the retail investor picked up the slack and purchased the bonds for California," he said. "That was only two weeks ago."

Rhode Island has used tax anticipation notes in each of the last three years, including this one. It also relied heavily on the tactic during the credit union crisis of the early 1990s. The current state budget authorizes the state to borrow up to \$350 million, the highest amount in state history.

But never before has Rhode Island encouraged citizens to play a role.

Caprio's office noted that the international rating agency Fitch assigned a "F1+" rating to the tax anticipation notes, the highest rating available on short-term bonds.

Meanwhile, Carcieri said he would continue to work on helping Ocean State small businesses

through the current credit crunch.

The governor declined to offer specifics, but didn't rule out using taxpayer money to encourage banks to loosen recent restrictions they've put on access to credit.

"I'm not getting into specific ideas that would maybe help," Carcieri said at a news conference outside his office. He said he needed a few more days to "flush out" the ideas presented at the meeting.

The governor said he hoped to develop a "package of things" that may require changes in state law to address the credit crisis.

"The plans will be formulated," said Tom Celona, owner of Thrifty Car Sales in Warwick and one of the meeting participants. "Today was just kind of an exploratory session. We gave him a million ideas — some good, some not."

Carcieri said he is concerned that the credit crunch will push the state's 8.8 percent unemployment rate even higher, if large employers are forced to cut back on spending and lay off workers.

"I am worried about further erosion," he said.

Saul Kaplan, executive director of the state's Economic Development Corporation, which is chaired by the governor, said that the credit problem is widespread throughout the state.

He said three months ago, eco-

nomic development officials were discussing how companies could more easily access capital to grow their businesses. Today, many discussions are about how to make sure companies can have access to short-term credit lines to keep their business running.

Mark Hayward, director of the Rhode Island division of the Small Business Administration, elaborated on the extent of the problem businesses are facing.

"There is a severe restriction of capital out there."

Some banks have tightened up standards under which they agree to loan money, and some have even closed credit lines to businesses altogether.

He said that SBA-backed lending so far this month is down considerably from the same period in previous years. Through yesterday, only 10 loans had been made, totaling \$1.7 million. In the same period in 2007, there were twice as many loans made for a total of \$3.25 million. Two years ago, there were 34 loans made totaling \$5.29 million.

Asked whether he was ruling out using any taxpayer money as part of a solution, Carcieri said no. The state may "put some state money in, in some form," though he declined to elaborate.

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